TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 2064 - HB 2124

March 9, 2014

SUMMARY OF BILL: Prohibits the practice of fracturing to facilitate oil or gas extraction within the state.

ESTIMATED FISCAL IMPACT:

Decrease State Expenditures –
$67,100/FY17-18 and Subsequent Years/Department of Environment and Conservation

Decrease State Revenue –
$31,500/FY16-17/Environmental Protection Fund
$63,000/FY17-18 and Subsequent Years/Environmental Protection Fund
$91,900/FY18-19/General Fund
$919,000/FY19-20 and Subsequent Years/General Fund

Decrease Local Revenue - $45,900/FY18-19
$458,800/FY19-20 and thereafter

Assumptions:

- The effective date of the bill is upon becoming law for promulgating rules and regulations; for all other purposes on January 1, 2016.
- The Department of Environment and Conservation will be able to eliminate one field inspector beginning in FY17-18. This will result in a recurring decrease in state expenditures of $67,100 for the department.
- Approximately 140 permits are issued for oil and gas extraction each year. It is assumed that there will be a 90 percent decrease in the number of permits issued. The total reduction of permits is estimated to be 126 (140 x .90).
- Each oil and gas extraction permit is subject to a $500 fee. Therefore, there will be a recurring decrease in state revenue to the Environmental Protection Fund of $63,000 (126 x $500) beginning in FY17-18. The impact in FY16-17 will be 50 percent (or $31,500) of the first full-year impact due to the effective date of the bill.

- Total oil and gas severance tax collections were $1,530,953 in FY12-13. This number is assumed to remain constant into perpetuity under current law.
- Based on information provided by the Department of Environment and Conservation (TDEC), it is estimated the state will eventually lose 90 percent of all oil and gas severance tax revenue as a result of the prohibition on fracturing. Therefore, a total decrease in severance tax revenue of $1,377,858 ($1,530,953 x 90.0%). However, this revenue will be lost in future fiscal years.
- Wells that are producing oil and gas on the effective date of the bill are assumed to continue producing oil and gas for a period of three to five years, which approximates the average life span of such wells; therefore, it is assumed that severance tax collections will continue at current levels through the end of FY17-18.
- Beginning around January 1, 2019, the wells that were in existence on January 1, 2016, are assumed to begin producing less oil and gas, and by January 1, 2021, these wells are assumed to no longer be producing any oil or gas.
- Based on information provided by TDEC, it is assumed that severance tax collections will decrease by approximately $137,786 in FY18-19 (which is ten percent of the total estimated loss of $1,377,858). Further, it is assumed that severance tax collections will decrease by $1,377,858 in FY19-20 and subsequent years (or 100 percent of the total estimated loss).
- Proceeds of the oil and gas severance tax are apportioned two-thirds (2/3) to the state (which is deposited to the state General Fund) and one-third (1/3) to local governments.
- The decrease in state revenue to the General Fund for FY18-19 is estimated to be $91,903 ($137,786 x 66.7%); the decrease in local revenue for FY18-19 is estimated to be $45,883 ($137,786 x 33.3%).
- The recurring decrease in state revenue to the General Fund for FY19-20 and subsequent years is estimated to be $919,031 ($1,377,858 x 66.7%); the recurring decrease in local revenue for FY19-20 and subsequent years is estimated to be $458,827 ($1,377,858 x 33.3%).

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Lucian D. Geise, Executive Director

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